
HOUSE BILL 1044

State of Washington 59th Legislature 2005 Regular Session

By Representative Sommers; by request of Office of Financial Management

Read first time 01/11/2005. Referred to Committee on Appropriations.

1 AN ACT Relating to pension funding methodology; amending RCW
2 41.45.010, 41.45.010, 41.45.054, and 41.45.060; reenacting and amending
3 RCW 41.45.060; providing effective dates; providing an expiration date;
4 and declaring an emergency.

5 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF WASHINGTON:

6 **Sec. 1.** RCW 41.45.010 and 2002 c 26 s 3 are each amended to read
7 as follows:

8 It is the intent of the legislature to provide a dependable and
9 systematic process for funding the benefits provided to members and
10 retirees of the public employees' retirement system, chapter 41.40 RCW;
11 the teachers' retirement system, chapter 41.32 RCW; the law enforcement
12 officers' and fire fighters' retirement systems, chapter 41.26 RCW; the
13 school employees' retirement system, chapter 41.35 RCW; and the
14 Washington state patrol retirement system, chapter 43.43 RCW.

15 The legislature finds that the funding status of the state
16 retirement systems has improved dramatically since 1989. Because of
17 the big reduction in unfunded pension liabilities, it is now prudent to
18 adjust the long-term economic assumptions that are used in the
19 actuarial studies conducted by the state actuary. The legislature

1 finds that it is reasonable to increase the salary growth assumption in
2 light of Initiative Measure No. 732, to increase the investment return
3 assumption in light of the asset allocation policies and historical
4 returns of the state investment board, and to reestablish June 30,
5 2024, as the target date to achieve full funding of all liabilities in
6 the public employees' retirement system plan 1, the teachers'
7 retirement system plan 1, and the law enforcement officers' and fire
8 fighters' retirement system plan 1.

9 The funding process established by this chapter is intended to
10 achieve the following goals:

11 (1) To continue to fully fund the public employees' retirement
12 system plans 2 and 3, the teachers' retirement system plans 2 and 3,
13 the school employees' retirement system plans 2 and 3, and the law
14 enforcement officers' and fire fighters' retirement system plan 2 as
15 provided by law;

16 (2) To fully amortize the total costs of the public employees'
17 retirement system plan 1, the teachers' retirement system plan 1, and
18 the law enforcement officers' and fire fighters' retirement system plan
19 1, not later than June 30, 2024;

20 (3) To establish (~~(predictable)~~) long-term employer contribution
21 rates which will remain a relatively (~~(constant)~~) predictable
22 proportion of the future state budgets; and

23 (4) To fund, to the extent feasible, benefit increases for plan 1
24 members and all benefits for plan 2 and 3 members over the working
25 lives of those members so that the cost of those benefits are paid by
26 the taxpayers who receive the benefit of those members' service.

27 **Sec. 2.** RCW 41.45.010 and 2004 c 242 s 36 are each amended to read
28 as follows:

29 It is the intent of the legislature to provide a dependable and
30 systematic process for funding the benefits provided to members and
31 retirees of the public employees' retirement system, chapter 41.40 RCW;
32 the teachers' retirement system, chapter 41.32 RCW; the law enforcement
33 officers' and fire fighters' retirement systems, chapter 41.26 RCW; the
34 school employees' retirement system, chapter 41.35 RCW; the public
35 safety employees' retirement system, chapter 41.37 RCW; and the
36 Washington state patrol retirement system, chapter 43.43 RCW.

1 The legislature finds that the funding status of the state
2 retirement systems has improved dramatically since 1989. Because of
3 the big reduction in unfunded pension liabilities, it is now prudent to
4 adjust the long-term economic assumptions that are used in the
5 actuarial studies conducted by the state actuary. The legislature
6 finds that it is reasonable to increase the salary growth assumption in
7 light of Initiative Measure No. 732, to increase the investment return
8 assumption in light of the asset allocation policies and historical
9 returns of the state investment board, and to reestablish June 30,
10 2024, as the target date to achieve full funding of all liabilities in
11 the public employees' retirement system plan 1, the teachers'
12 retirement system plan 1, and the law enforcement officers' and fire
13 fighters' retirement system plan 1.

14 The funding process established by this chapter is intended to
15 achieve the following goals:

16 (1) To fully fund the public employees' retirement system plans 2
17 and 3, the teachers' retirement system plans 2 and 3, the school
18 employees' retirement system plans 2 and 3, the public safety
19 employees' retirement system plan 2, and the law enforcement officers'
20 and fire fighters' retirement system plan 2 as provided by law;

21 (2) To fully amortize the total costs of the public employees'
22 retirement system plan 1, the teachers' retirement system plan 1, and
23 the law enforcement officers' and fire fighters' retirement system plan
24 1, not later than June 30, 2024;

25 (3) To establish (~~predictable~~) long-term employer contribution
26 rates which will remain a relatively (~~constant~~) predictable
27 proportion of the future state budgets; and

28 (4) To fund, to the extent feasible, benefit increases for plan 1
29 members and all benefits for plan 2 and 3 members over the working
30 lives of those members so that the cost of those benefits are paid by
31 the taxpayers who receive the benefit of those members' service.

32 **Sec. 3.** RCW 41.45.054 and 2003 1st sp.s. c 11 s 2 are each amended
33 to read as follows:

34 The basic employer and state contribution rates and plan 2 member
35 contribution rates are changed to reflect the (~~2000~~) 2002 actuarial
36 valuation(~~, incorporating the 1995-2000 actuarial experience study~~
37 ~~conducted by the office of the state actuary. The results of the 2001~~

1 ~~actuarial valuation for the public employees' retirement system, the~~
2 ~~teachers' retirement system, and the school employees' retirement~~
3 ~~system shall be restated as a result of the new asset smoothing method~~
4 ~~adopted in RCW 41.45.035,)) and suspension of payments on the unfunded~~
5 liability in the public employees' retirement system and teachers'
6 retirement system, to collect the following contribution rates:

7 (1)(a) Beginning July 1, (~~2003~~) 2005, the following employer
8 contribution rates shall be charged:

9 (~~(a) 1.18~~) (i) 1.75 percent for the public employees' retirement
10 system; and

11 (~~(b)~~) (ii) 3.03 percent for the law enforcement officers' and
12 fire fighters' retirement system plan 2.

13 (b) Beginning July 1, 2006, the employer contribution rate of 2.50
14 percent for the public employees' retirement system shall be charged.

15 (2) Beginning July 1, 2003, the basic state contribution rate for
16 the law enforcement officers' and fire fighters' retirement system plan
17 2 shall be 2.02 percent.

18 (3)(a) Beginning September 1, (~~2003~~) 2005, the following employer
19 contribution rates shall be charged:

20 (~~(a) 0.84~~) (i) 2.00 percent for the school employees' retirement
21 system; and

22 (~~(b) 1.17~~) (ii) 1.30 percent for the teachers' retirement system.

23 (b) Beginning September 1, 2006, the following employer
24 contribution rates shall be charged:

25 (i) 2.75 percent for the school employees' retirement system; and

26 (ii) 1.58 percent for the teachers' retirement system.

27 (4)(a) Beginning July 1, (~~2003~~) 2005, the following member
28 contribution rates shall be charged:

29 (~~(a) 1.18~~) (i) 1.75 percent for the public employees' retirement
30 system plan 2; and

31 (~~(b)~~) (ii) 5.05 percent for the law enforcement officers' and
32 fire fighters' retirement system plan 2.

33 (b) Beginning July 1, 2006, the member contribution rate of 2.50
34 percent for the public employees' retirement system plan 2 shall be
35 charged.

36 (5)(a) Beginning September 1, 2003, the following member
37 contribution rates shall be charged:

1 ~~((a) 0.84))~~ (i) 2.00 percent for the school employees' retirement
2 system plan 2; and

3 ~~((b) 0.87))~~ (ii) 1.00 percent for the teachers' retirement system
4 plan 2.

5 ~~((6) The contribution rates in this section shall be collected
6 through June 30, 2005, for the public employees' retirement system and
7 the law enforcement officers' and fire fighters' retirement system, and
8 August 31st, 2005, for the school employees' retirement system and the
9 teachers' retirement system.~~

10 ~~(7) The July 1, 2003, contribution rate changes provided in this
11 section shall be implemented notwithstanding the thirty day advanced
12 notice provisions of RCW 41.45.067.)~~

13 (b) Beginning September 1, 2006, the following member contribution
14 rates shall be charged:

15 (i) 2.75 percent for the school employees' retirement system plan
16 2; and

17 (ii) 1.30 percent for the teachers' retirement system plan 2.

18 **Sec. 4.** RCW 41.45.060 and 2003 c 294 s 10 and 2003 c 92 s 3 are
19 each reenacted and amended to read as follows:

20 (1) The state actuary shall provide actuarial valuation results
21 based on the economic assumptions and asset value smoothing technique
22 included in RCW 41.45.035 or adopted by the council under RCW 41.45.030
23 or 41.45.035.

24 (2) Not later than September 30, 2002, and every two years
25 thereafter, consistent with the economic assumptions and asset value
26 smoothing technique included in RCW 41.45.035 or adopted under RCW
27 41.45.030 or 41.45.035, the council shall adopt and may make changes
28 to:

29 (a) A basic state contribution rate for the law enforcement
30 officers' and fire fighters' retirement system plan 1;

31 (b) Basic employer contribution rates for the public employees'
32 retirement system, the teachers' retirement system, and the Washington
33 state patrol retirement system to be used in the ensuing biennial
34 period; and

35 (c) A basic employer contribution rate for the school employees'
36 retirement system for funding both that system and the public
37 employees' retirement system plan 1.

1 The contribution rates adopted by the council shall be subject to
2 revision by the legislature.

3 (3) The employer and state contribution rates adopted by the
4 council shall be the (~~level~~) percentages of pay that are needed:

5 (a) To fully amortize the total costs of the public employees'
6 retirement system plan 1, the teachers' retirement system plan 1, and
7 the law enforcement officers' and fire fighters' retirement system plan
8 1 not later than June 30, 2024; and

9 (b) To also continue to fully fund the public employees' retirement
10 system plans 2 and 3, the teachers' retirement system plans 2 and 3,
11 and the school employees' retirement system plans 2 and 3 in accordance
12 with RCW 41.45.061, 41.45.067, and this section.

13 (4) The aggregate actuarial cost method shall be used to calculate
14 (~~a combined plan 2 and 3 employer contribution rate and~~) a Washington
15 state patrol retirement system contribution rate.

16 (5) The projected unit credit method shall be used to calculate a
17 combined plan 2 and 3 employer contribution rate for the public
18 employees' retirement system, the teachers' retirement system, and the
19 school employees' retirement system.

20 (6) The council shall immediately notify the directors of the
21 office of financial management and department of retirement systems of
22 the state and employer contribution rates adopted. The rates shall be
23 effective for the ensuing biennial period, subject to any legislative
24 modifications.

25 (~~6~~) (7) The director of the department of retirement systems
26 shall collect the rates established in RCW 41.45.053 through June 30,
27 2003. Thereafter, the director shall collect those rates adopted by
28 the council. The rates established in RCW 41.45.053, or by the
29 council, shall be subject to revision by the council.

30 **Sec. 5.** RCW 41.45.060 and 2004 c 242 s 39 are each amended to read
31 as follows:

32 (1) The state actuary shall provide actuarial valuation results
33 based on the economic assumptions and asset value smoothing technique
34 included in RCW 41.45.035 or adopted by the council under RCW 41.45.030
35 or 41.45.035.

36 (2) Not later than September 30, 2002, and every two years
37 thereafter, consistent with the economic assumptions and asset value

1 smoothing technique included in RCW 41.45.035 or adopted under RCW
2 41.45.030 or 41.45.035, the council shall adopt and may make changes
3 to:

4 (a) A basic state contribution rate for the law enforcement
5 officers' and fire fighters' retirement system plan 1;

6 (b) Basic employer contribution rates for the public employees'
7 retirement system, the teachers' retirement system, and the Washington
8 state patrol retirement system to be used in the ensuing biennial
9 period; and

10 (c) A basic employer contribution rate for the school employees'
11 retirement system and the public safety employees' retirement system
12 for funding both those systems and the public employees' retirement
13 system plan 1.

14 The contribution rates adopted by the council shall be subject to
15 revision by the legislature.

16 (3) The employer and state contribution rates adopted by the
17 council shall be the (~~level~~) percentages of pay that are needed:

18 (a) To fully amortize the total costs of the public employees'
19 retirement system plan 1, the teachers' retirement system plan 1, and
20 the law enforcement officers' and fire fighters' retirement system plan
21 1 not later than June 30, 2024; and

22 (b) To fully fund the public employees' retirement system plans 2
23 and 3, the teachers' retirement system plans 2 and 3, the public safety
24 employees' retirement system plan 2, and the school employees'
25 retirement system plans 2 and 3 in accordance with RCW 41.45.061,
26 41.45.067, and this section.

27 (4) The aggregate actuarial cost method shall be used to calculate
28 (~~a combined plan 2 and 3 employer contribution rate and~~) a Washington
29 state patrol retirement system contribution rate.

30 (5) The projected unit credit method shall be used to calculate a
31 combined plan 2 and 3 employer contribution rate for the public
32 employees' retirement system, the teachers' retirement system, and the
33 school employees' retirement system.

34 (6) The council shall immediately notify the directors of the
35 office of financial management and department of retirement systems of
36 the state and employer contribution rates adopted. The rates shall be
37 effective for the ensuing biennial period, subject to any legislative
38 modifications.

1 (~~(6)~~) (7) The director shall collect those rates adopted by the
2 council. The rates established in RCW 41.45.054, or by the council,
3 shall be subject to revision by the legislature.

4 NEW SECTION. **Sec. 6.** (1) Sections 1, 3, and 4 of this act are
5 necessary for the immediate preservation of the public peace, health,
6 or safety, or support of the state government and its existing public
7 institutions, and take effect July 1, 2005.

8 (2) Sections 2 and 5 of this act take effect July 1, 2006.

9 NEW SECTION. **Sec. 7.** Sections 1 and 4 of this act expire July 1,
10 2006.

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